





The Under Secretary for International Trade  
Washington, D.C. 20230

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July 16, 1983

Honorable William J. Casey  
Director  
Central Intelligence Agency  
Washington, D.C. 20505

Dear Bill,

At the same time as the 14-member panel of Soviet experts from the private sector was assessing CIA's work on the Soviet economy and producing its report which I provided to you separately, I asked that a small component of my staff undertake a separate analysis on the methodology used by CIA to calculate Soviet GNP growth. My rationale was that consumers of intelligence tend to ascribe greater significance to quantitative measurements, compared to other forms of intelligence reporting, than is warranted. As the panel observed, even though GNP indices provide only limited insights particularly for closed societies like the USSR, policy-makers focus on them perhaps excessively. Thus, continuing efforts must be made to examine the validity of and improvement upon the methods which are used in the intelligence process. (I know of your effort to do something similar regarding the methodology used to estimate Soviet defense spending.)

The experiment we selected was to calculate the growth of the U.S. economy and of the West Germany economy by applying the methodology CIA uses on the Soviet economy, and then to compare the results with the official estimates published by the U.S. and FRG governments. The U.S. and FRG economies were chosen because both make available the most elaborate statistics. Production data was assembled for a list of products as close as possible to those used by the CIA for the USSR; the methods of estimation were also duplicated as completely as possible.

The results of this experiment show a substantial downward bias in estimating growth rates. These "shortfalls" are remarkably similar to the differences between CIA's estimates for the USSR and the Soviet Union's official estimates of its own economy. Thus, inferentially, this would indicate a possible underestimation in the growth of Soviet industry at large by 22-27%; in the growth of Soviet machinery industries by 26-37%; and in the growth of Soviet GNP by about 30%.

I hasten to point out that the panel of experts concluded that this experiment -- while interesting -- is not persuasive; and that the parallels drawn between the U.S., FRG and Soviet economies are simplistic and misleading.

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Especially because the panel included [ ] who is recognized throughout the world for the excellence of his work in the field of national account measurements, and because he believes that the CIA's methodology produces results within a tolerance that would not fundamentally alter our assessment of the Soviet economy, the experiment may be of marginal utility.

Perhaps. The fact that estimating national accounts is an enormously complicated process even for specialists with long experience, might be sufficient reason, given the judgment of the panel of experts, for laying the experiment aside and not troubling you with it. However, because the issue is so important and because certain of the most striking results are not readily explainable as mere probability, it does I think warrant your attention and possibly additional analysis. If we can help in this regard, I'd be prepared to make staff available.

Copies of this report have been provided to analysts within CIA's Office of Soviet Affairs.

Sincerely,

  
Lionel H. Olmer

Enclosure

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